

THE FINANCIAL CRISIS IN GERMANY

by

MILDRED S. WERTHEIMER

with the aid of the Research Staff of the Foreign Policy Association

1 1 1

INTRODUCTION

THE decision to hold a conference in Lausanne next June to agree on a "lasting settlement" of the reparation question and on "measures necessary to solve the other economic and financial difficulties which are responsible for and may prolong the world crisis" gives some hope that the governments concerned will at last take action on the problems which are disturbing international political and economic relations. These problems were brought to a head by the acute phase of the world depression which manifested itself in the Central European credit crisis of the summer of 1931, forced Great Britain off the gold standard in September, affected the currencies of other countries and gravely impaired world credit and world trade.

Committees of economists and bankers have urged the governments to adjust the reparation and debt problems as soon as possible and thus facilitate economic and financial reconstruction, but divergent national interests and domestic political considerations have so far impeded international action. The attitudes of the various governments at the Lausanne Conference will be affected in part by the elections which will have taken place before it meets. Thus in Germany presidential elections will be held in March, followed by an election to the Prussian Diet in the spring, while the French general elections must be held not later than May.

Apart from the influence of these forthcoming elections, however, the solution of the reparation and debt problem is complicated by the national interests of the powers concerned. Germany, the general debtor, owes to private investors abroad about 5.5 billion dollars and to foreign governments on account of reparation a sum, the capital-

ized value of which is approximately 8 billion dollars. Germany believes that the private debts should have priority over reparation, and that from the economic point of view it is impossible to meet both obligations. The German people, as a whole, regard reparation as "tribute" arising out of unjust moral allegations, and claim, therefore, that these payments should be wiped out.

France, Great Britain and Italy rely on German reparation payments to meet their war debt obligations to the United States. In addition, France receives the lion's share of the so-called "unconditional" payments, designed to meet the expenses of reconstructing its devastated areas. The French, moreover, have only negligible private investments in Germany, in contrast to American and British investors who have large sums at stake in the Reich. Consequently, France takes the lead in demanding that reparation be given priority over private debts. Furthermore, the French feel that cancellation of reparation might lead to a complete breakdown of the peace settlement of 1919.

The interests of Great Britain are complicated by its private investments in Germany which are second only to those of the United States, and the interests of both these powers are therefore different from those of France. The British and American private investors demand that priority be given to commercial investments over reparation. Nevertheless, the British government is concerned with collecting reparation to the extent necessary to pay its debts to the United States. The American government, for its part, is primarily interested in collecting the interest and principal of the loans which it made to the Allies during and immediately after the war, which have a present capital-

ized value of about 7 billion dollars. The United States has never officially admitted that these debts are connected with reparation; nevertheless, the Allies linked the two together in the Young Plan.

It will be the task of the forthcoming Lausanne Conference to reconcile or compromise these divergent interests. Whether this is possible depends on the ability of the various governments to take a long view of their own interests. It is argued that the revival of world trade and confidence which would follow a definite settlement of the problem of intergovernmental debts would in the long run result in far greater benefits for each nation than could be forthcoming from an unyielding insistence upon their continuance. During the past year the export trade of the seven principal countries of the world has shrunk by a sum equal to about ten times the amount which Germany must pay annually in reparation. The export trade of the United States alone has declined in value by almost five times the amount of its annual receipts from inter-Allied debt payments.

The Lausanne Conference is faced by a definite time limit because the Hoover moratorium, which postponed payments of all inter-governmental obligations for one year, expires on June 30, 1932. The next German payment on the unconditional reparation is due July 15; the next inter-Allied payments to the United States must be made on December 15, 1932.

Germany as the general debtor and therefore the crux of the entire problem has been particularly hard hit by the depression and the crisis of 1931. It is contended that should the Reich "collapse" and be forced to declare a general moratorium on all payments at home and abroad, the result would be complete stagnation of industry and trade in Germany—with consequent disastrous effects on the rest of Europe and the entire world. This report first reviews very briefly the various reparation settlements, and then discusses the effects of the world depression on Germany, the causes, course and results of the 1931 crisis, the measures by which Germany has endeavored to help itself, and the international action which has so far been taken to this end.

ATTEMPTS AT REPARATION SETTLEMENT, 1919-1924

The right of the Allies to reparation from Germany rests on Articles 231 and 232 of the Versailles Treaty, under which Germany and its allies accepted the responsibility "for causing all loss and damage to which the Allied and Associated Governments have been subjected as a consequence of the war." Nevertheless, Germany was asked only to make "compensation for all damage done to the civilian population—by land, sea and from the air. . . ." The Versailles Treaty did not fix the total amount Germany was to pay, and after it came into force several attempts were made by the Allies to assess the German reparation debt. In 1921 the Reparation Commission placed it at 132 billion gold marks (\$31,428,570,000). Schedules of payments were drawn up on this basis, providing for an annual payment of two billion gold marks (\$476,000,000), a variable annuity equal to 26 per cent of German exports, and a cash payment by September 1921 of one billion gold marks (\$238,000,000). The failure to meet these payments led to the Franco-Belgian invasion of the Ruhr early in 1923. In 1924 the Dawes Plan was drawn up, under which the total amount of Germany's obligations was not fixed but annuities were laid down starting at one billion gold marks (\$238,000,000) in 1924-1925, and rising to 2,500 million gold marks (\$595,000,000) in 1928-1929, the so-called "standard year." The aim of the Dawes Plan was to restore confidence in Germany, permit the rehabilitation of its currency, and at the same time secure reparation for its creditors. The Plan contained safeguards under which the annuities might be modified: first, an "index of prosperity," under which the annuities might be increased; and second, a provision according to which the payments would be increased or reduced with changes in the purchasing power of gold.

THE DAWES AND YOUNG PLANS

The Dawes Plan, admittedly a temporary settlement, remained in force five years. In 1929 it was replaced by the Young Plan which scaled down Germany's obligations

somewhat, fixed a definite sum which the Reich was to pay, and provided for commercialization of a portion of these payments. The capital value of Germany's payments for the first 37 years under the Young Plan is RM 30,835,000,000 (\$8,221,000,000) which is the equivalent of an average annuity of \$473,700,000. The annuities are divided into two classes of payments: non-postponable, representing about one-third of the total amount; and postponable, representing the balance, which Germany could partially suspend for a period of two years in case of necessity after an investigation by a committee appointed by the Bank for International Settlements. The period over which German reparation payments are to run was made to correspond with the period of the war-debt payments, and the amounts of the German annuities and the conditions of their payment were explicitly related to the Allied "outpayments." Thus although the United States has maintained that there is no connection between reparation and war debts, the Allied governments, nevertheless, frankly relied on Germany for the money with which to pay the United States, a sum which totals an annual maximum amount of \$383,600,000. The Young Plan further provides that in case of a reduction of debts on the part of the United States, two-thirds of the saving is to accrue to Germany during the first 37 years, while from 1966 to 1988 the Reich is to benefit by the entire saving. All payments are to cease in 1988.

Although the Young Plan reduced the size of the German annuities, it contained no "gold clause," as had the Dawes Plan. At

the time the Young Plan was drafted this omission apparently appeared to be an advantage to Germany; it has proved to be the exact opposite, since the world depression and deflation have caused an increase of almost 50 per cent in the value of gold.¹ Thus the reduced annuities under the Young Plan have proved to be as much or more of a burden to the German people than the larger payments provided under the Dawes Plan.^{1a}

The total amount of reparation which Germany has paid between the Armistice and June 30, 1931, when the Hoover moratorium suspended reparation payments for one year, is very difficult to determine. The Germans maintain that they have paid more than 66 billion gold marks, and include in their reckoning private property abroad liquidated by the Allies and private claims of Allied nationals settled by Germany. They also include items which have never been admitted in the Allied computation of reparation payments.² The French credit Germany with total payments of 21.4 billion gold marks, of which approximately 11 billion were pre-Dawes payments, including cessions of territory, etc. France estimates its receipts from Germany at about 8 billion gold marks, of which almost 3 billion went to defray the costs of the armies of occupation, etc., leaving approximately 5 billion to be applied to reconstruction of the devastated areas. The French Finance Minister, M. Flandin, estimates that France has spent 97,881 million francs (more than 16 billion marks) on reconstruction, a sum far in excess of the French estimates of reparation receipts from Germany.^{2a}

GERMAN BORROWING ABROAD

The transfer of sums of money from one country to another can only be made in gold or in goods and services. A third way to meet international obligations temporarily is by borrowing abroad; in the long run, however, this method merely postpones the day of reckoning. Germany's reparation payments from 1924 to 1931 were in effect made and transferred in the latter manner.

As an integral part of the Dawes Plan, an International Reparation Loan of 800,000,000 gold marks was floated³ abroad in

1. *Vierteljahrshäfte zur Konjunkturforschung*, published by the Institut für Konjunkturforschung (hereafter cited as *Vierteljahrshäfte*), Berlin, Reimar Hobbing Verlag, 1931, 6th year, Vol. 3, Part A, December 1931, p. 7.

1a. The problems of reparation and inter-Allied debts have been discussed in the following *Information Service* reports of the Foreign Policy Association: Lewis Webster Jones, "The United States and the War Debts," Vol. III, Special Supplement No. 1, April-May, 1927; Harry D. Gideonse, "The Reparation Settlement of 1930," Vol. VI, No. 5, May 14, 1930; James W. Angell, "Reparation and the Inter-Ally Debts in 1931," Vol. VII, No. 4, April 29, 1931.

2. *Frankfurter Zeitung*, January 30, 1932; *The Economist* (London), February 6, 1932.

2a. *Le Temps*, January 9, 1932.

3. This loan was floated as follows: \$110,000,000 in the United States; £12,000,000 in Great Britain; £9,360,000 in Belgium; 25.2 million kroner in Sweden; 15 million Swiss francs

1924. This loan was followed by a great influx of foreign credits into Germany as soon as the Dawes Plan went into effect.

The most important reason for the flow of foreign money into Germany was the dearth of capital from which the Reich suffered as a result of post-war reconstruction and inflation.^{3a} Not only did the war consume large amounts of capital, but Germany's territorial losses, the liquidation of its assets abroad and the surrender of its merchant fleet caused a severe drain. The burden of taxation since the war has further contributed to the dearth of capital. In 1914, 11.5 per cent of the German national income was expended for taxes and social purposes; in 1929, 28.6 per cent was absorbed by the State for these purposes.⁴ Reparation payments have been a further cause of the capital shortage.

HIGH INTEREST RATES ATTRACT FOREIGN CAPITAL

One of the results of these and related factors has been the high rate of interest in Germany. Interest on "German" money between 1925 and 1930 was at the rate of from 8 to 10 per cent, and it has been estimated that the difference between the cost of credits in German marks, and sterling and dollar credits secured through German banks in Germany, was about 2 per cent for current accounts and 3½ to 4 per cent for revolving credits.⁵ The public authorities and private firms of acknowledged standing, therefore, did considerable borrowing directly from the foreign bankers, while the German banks borrowed abroad and reloaned the money within Germany.

High German interest rates obtained when money was especially cheap in the

United States and when there was an excess of loan funds available here.⁷ Investment in Germany, therefore, appeared very attractive to people with money to lend. The countries which loaned the most money to Germany were the United States, Great Britain, Holland and Switzerland.⁸ At the end of July 1931, German debtors owed to American creditors 41 per cent of the total foreign debt; to British, 15 per cent; to Dutch, 14 per cent; to Swiss, 12.5 per cent; and to French, only 4.8 per cent. The remainder was scattered among several other countries and the Bank for International Settlements.⁹ It is worthy of note that France, which received the lion's share of the reparation payments, loaned very little money directly to the Reich.

The exact amount which Germany borrowed abroad between 1924 and 1930 is very difficult to estimate. The Reich's gross commercial debt to foreigners at the end of December 1930 totaled between RM 31.4 and RM 32.9 billion.¹⁰ The chief weakness in the German position lay in the fact that at the end of December 1930 about 40 per cent of Germany's total foreign debt was at short term and could therefore be withdrawn in case the creditors' faith in the Reich's ability to meet its obligations was shaken. Sixty per cent of this short-term money had been borrowed since the end of 1926, the largest influx of foreign loans of all kinds having taken place during the years 1927, 1928 and 1929.¹¹

7. Cf. B. M. Anderson, Jr., "What England and Germany mean to the United States," *The Chase Economic Bulletin*, Vol. XI, No. 4, October 8, 1931.

8. *Report of the Young Plan Advisory Committee*, cited.

9. *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932. The United States had the following amounts invested in Germany at the end of July 1931: acceptance credits, RM 1,405 million (\$334,523,310); other short-term loans, RM 1,738 million (\$413,810,000); long-term loans, RM 6,336 million (\$1,508,571,428); total RM 9,479 million (\$2,254,761,900). The par value of the reichsmark is 4.20 to the dollar. Cf. Appendix, Table V.

10. *Report of the Young Plan Advisory Committee*, cited. In estimating the net German debt abroad, the Wiggan Committee and the Young Plan Advisory Committee arrived at different conclusions. The Wiggan Committee gave the following figures for the end of December 1930:

Total foreign investments in Germany	RM 25.5 billion
Total German investments abroad	9.7

Net German debt to foreigners	RM 15.8 billion
-------------------------------	-----------------

The Young Plan Advisory Committee partly explains a difference of approximately RM 6 billion in the gross debt by the impossibility of ascertaining exactly the amount of German assets abroad. Furthermore, there is a large margin of possible error in compiling the figures for the balance of international payments over a period of years; and finally it is impossible to estimate with accuracy the amount of German capital which has emigrated from the Reich since the war.

12. *Report of the Committee Appointed on the Recommendation of the London Conference 1931*, Basle. (Hereafter cited as *Report of the Wiggan Committee*.)

in Switzerland. The German Reichsbank took over the remaining £320,000. Cf. R. R. Kuczynski, *American Loans to Germany*, Institute of Economics (New York, Macmillan, 1927), p. 26; cf. also *The Experts' Plan for Reparation Payments*, published by The Reparation Commission (Paris, 1926), p. 34 et seq.

3a. *Report of the Special Advisory Committee convened under the Agreement with Germany concluded at The Hague on January 20, 1930, Basle, December 23, 1931* (London, H. M. Stationary Office, 1932), Cmd. 3995 (hereafter cited as *Report of the Young Plan Advisory Committee*). Cf. Erich Welter, *Die Ursachen des Kapitalmangels in Deutschland*, Tübingen, Mohr Verlag, 1931, *passim*, and p. 194 et seq. for summary.

4. Welter, *Die Ursachen des Kapitalmangels in Deutschland*, p. 194; *The Present Economic State of Germany*, some conclusions of a study by Professors E. von Beckerath, M. J. Bonn, K. Diehl, W. Lotz, M. Serling, and K. Wiedenfeld (published by the *Notgemeinschaft der deutschen Wissenschaft*, 1931), p. 28.

6. Cf. *The Present Economic State of Germany*, cited, *passim*.

GERMAN EXPENDITURES ON PUBLIC AND PRIVATE WORKS

This money was loaned by foreign bankers and industries to German banks and industries, and to some extent to the German public authorities. The latter, however, took directly from abroad a sum comprising only 2.5 per cent of the total.¹³ This percentage does not appear to give an accurate picture, for in reality the German public bodies (the Reich, Federal States, Hansa cities,¹⁴ Communes and Communal Associations) were able to re-borrow from the German banks money which the latter had already borrowed abroad. The programs which the German States and Municipalities have carried through for public improvements bear witness to the large amount of capital which Germany invested in public enterprises between 1925 and 1930.

Almost one-third (31.31 per cent) of the total public debt of the Federal States and the Hansa cities on March 31, 1930 had been borrowed abroad, by far the largest portion having been raised in the United States. On the other hand, only 10 per cent (as of March 31, 1929) of the funds borrowed by the municipalities represented direct foreign loans.

The States and Hansa cities spent 36.5 per cent of their total borrowed funds for social purposes: public health, welfare, productive unemployment works, housing and settlements. The money used for these purposes was composed about equally of long-term and short and middle-term loans, 43.4 per cent representing the long-term money and 45.2 per cent being short and middle-term.¹⁵ The second largest item in the expenditure of the borrowed funds was the improvement of transportation facilities, including roads, waterways and harbors—more than one-fifth of the total (22.7 per cent) having been devoted to these purposes. A little more than half of the money so used was borrowed at long term. Thus, about three-fifths of the money borrowed by public authorities was used for social purposes and

transportation improvements. The remainder went to industry and agriculture, forest development, water works, education and miscellaneous undertakings.

The debts contracted by the German municipalities up to March 31, 1929 were 90 per cent domestic in origin, although, as stated, indirectly the percentage was undoubtedly much lower.¹⁷ About two-thirds of these debts were long-term and the remainder short and middle-term. The money appears to have been used in much the same fashion as in the case of the Federal States—housing and settlements, charity organizations, public welfare and public health accounting for 46 per cent of the total, while transportation improvements took 22 per cent. The remainder was used for administration of real estate, education, cash reserves and miscellaneous projects.

Altogether, between 1925 and 1930, Germany invested a very large amount of capital in both private and public enterprises. Between 1924 and 1929, a sum of RM 32,845 million was invested, 68 per cent of which, or RM 22,428 million, represented investments by public authorities for public utilities, housing (other than houses financed by purely private means), roads, canals, etc.¹⁸ Figures for the total amount of foreign capital invested in Germany at the end of 1929 are not available, but on the basis of the estimate of the gross foreign investments at the end of 1930 (approximately RM 30 billion¹⁹), it is apparent that a very large portion of the total new capital investment in the Reich represents funds borrowed abroad. Furthermore, the expenditures for public purposes, largely of a social nature, demonstrate the extent to which Germany has become a highly socialized state.

Revolution Gives Impetus To Social Enterprises

The amount of money which Germany spent on social purposes following the inflation is partially explained by the results of the war itself and partially by the German

13. *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932.

14. Hamburg, Bremen and Lübeck.

15. The remaining 11.2 per cent appears to have come from so-called loans from public funds, notably the house-rents tax. The above figures are from *Wirtschaft und Statistik*, October 12, 1931, p. 702, 705.

17. *Statistisches Jahrbuch für das Deutsche Reich* (Berlin, Reimar Hobbing Verlag, 1931), p. 402 (hereafter cited as *Statistisches Jahrbuch*).

18. *Report of the Young Plan Advisory Committee*, cited.

19. Cf. p. 458.

Revolution. The problem of providing work for the demobilized German army after the Armistice was a serious one. Furthermore, the birth rate during the years preceding the war was extremely high, and as a result the German labor supply during the post-war decade was very large, in spite of the numbers killed and incapacitated in the war. German territory ceded under the Versailles Treaty was for the most part relatively thinly populated so that the Reich now has less room for its increasing population. The loss of the German colonies and the emigration restrictions in the United States added to these difficulties. The Reich felt itself impelled to provide work for its people and for this purpose undertook productive unemployment works partly financed by foreign loans.

The German Revolution may also be held responsible, in a sense, for the form which many of the so-called productive unemployment works have taken. The Revolution was largely the work of the Social Democrats, and it was necessary to show the masses of the German people that the Revolution had not been in vain. As a result, the States and Municipalities, many of which were governed by Social Democrats, built public improvements, hospitals, swimming pools, stadia, etc., designed to improve the lot of their people, but which may be only indirectly classified as "productive" enterprises.

ATTEMPTS TO CURTAIL BORROWING UNSUCCESSFUL

Without the funds borrowed abroad, it would doubtless have been impossible to carry through these programs for public improvements. Many responsible people in Germany felt that there was over-borrowing, and the fact that the foreign bankers were so eager to lend and the Germans so eager to borrow greatly exercised both the German public authorities and Mr. S. Parker Gilbert. The Agent General for Reparation Payments dealt with this question fully and frankly in his reports on the execution of the Dawes Plan, and Dr. Schacht, as president of the Reichsbank, repeatedly warned both the German borrowers and the American lenders of the dangers inherent in this policy.²¹

In order to control these public authorities, the Reich government constituted an advisory organization, or *Beratungsstelle für Auslandsanleihen*, early in 1925²² to pass on borrowing programs, which, however, was not very successful in its functions.²³ It appears that without doubt both the lenders and the borrowers were responsible, for, as Mr. Gilbert stated at the time:

"Foreign bankers continue to offer short money at favorable rates of interest, and when German bankers refuse these offers it is evidence of self-restraint on their part rather than the result of conditions in the local market which make transactions of that sort unprofitable."²⁴

On the whole, the efforts of Mr. Gilbert and the German authorities may have had the effect of decreasing the amount of long-term loans, the capital sum of which did not have to be repaid until after a term of years. Foreign investors attempted to protect themselves by making short-term loans, the repayment of which might be demanded on short notice. Credits for the most part, however, were both offered and received with the tacit understanding that although called short-term, they would be renewed. As a result, short-term money was used in Germany to do the work of long-term loans, "with corresponding risks to both borrowers and lenders." But the actual conversion of the short debts into long was not, and probably could not have been, made.²⁵

RATIONALIZATION OF INDUSTRY

Actually, the largest amounts of short-term credits borrowed directly from abroad were loaned by foreign banks, not to the German public authorities, but to banks and amounted to 41 per cent of the total. The

21. Cf. Anderson, "What England and Germany mean to the United States," cited, p. 8; H. Schacht, *The End of Reparations*, (New York, Cape and Smith, 1931), p. 32.

22. Representing the Ministries of Finance and Economics, and the Reichsbank.

23. *Report of the Agent General for Reparation Payments*, December 10, 1927, p. 250; *ibid.*, June 15, 1928, p. 127 *et seq.*; *ibid.*, June 7, 1928, p. 76 *et seq.*; Kuczynski, *American Loans to Germany*, cited, p. 5 *et seq.* for full details. This question of excessive German borrowing and resulting extravagance, especially on the part of the public authorities, was the subject of an exchange of letters in the autumn of 1927 between Mr. Gilbert (October 20, 1927) and Dr. Köhler, the German Finance Minister (November 5, 1927). The Agent General again emphasized the danger inherent in this policy, while the Finance Minister, both in his reply and in subsequent public statements, stressed the need for economy, but also pointed out the difficulties of controlling the agencies accepting loans.

24. *Report of the Agent General for Reparation Payments*, June 7, 1928, p. 237.

25. *Report of the Wiggin Committee*, cited.

second largest item, 21.1 per cent of the total, is composed of loans made by industry and commerce abroad to industry and commerce in the Reich. Almost as large a sum, 19.9 per cent of the total, is accounted for by loans made directly to German industry and commerce by foreign banks. Furthermore, foreign industries and commercial undertakings loaned German banks amounts comprising 8.5 per cent of the total, these loans probably consisting of deposits arising out of or for the purpose of carrying on business in Germany.²⁶

The peace settlement and the inflation had necessitated large physical replacements and reorganization of German industries. With the assistance of foreign loans, the Germans during the last decade have constructed a modern and well-equipped industrial plant. In the boom year 1927 the physical volume of production in the six leading German industries was 15 per cent higher than in 1913.²⁷ In fact, in most respects—with the exception of agriculture and foreign trade—German economic life before the depression had regained if not surpassed the pre-war levels.²⁸

GERMANY'S BALANCE OF INTERNATIONAL PAYMENTS

The rationalization of German industry was justified on the ground that it was necessary to build up a surplus of exports over imports, to meet reparation payments. Until 1930, however, it was not possible to achieve a large favorable balance of trade. There

had been a small favorable export balance in 1926, due largely to the abnormal conditions resulting from the British coal strike. For the whole period, 1924 to 1930, however, the Reich had an unfavorable balance of RM 6.3 billion, although in 1930 exports exceeded imports by RM 1.6 billion.²⁹

German borrowing abroad not only enabled the Reich to pay for its unfavorable trade balance, but was also partly responsible for it. The years 1924, 1925, 1927 and 1928, when German imports exceeded exports, were also the years during which there was the largest influx of foreign capital to the Reich.³⁰ Between 1924 and 1930 the estimated net importation of capital into Germany, amounting to RM 18.2 billion, plus RM 3 billion received from services abroad, including shipping, enabled Germany to meet its international obligations as follows:³¹

1. To pay interest on its commercial debt during the seven-year period	RM 2.5 billion
2. To add to its holding of gold and foreign exchange	2.1
3. To pay reparation	10.3
4. To pay for a surplus of imports over exports (including deliveries in kind)	6.3

Thus during the entire period that the Dawes Plan was in force Germany met its foreign obligations by borrowing abroad and not "effectively out of its own resources."³² Its industrial plant, however, had been modernized and production raised to pre-war levels.

THE EFFECTS OF THE DEPRESSION ON GERMANY

Apparently the authors of the Young Plan believed that the German economy was now in a position to enable the Reich to build up an export surplus large enough to meet its reparation obligations. This belief was based on the assumption of an expansion of world trade. But before the Young Plan had even come into force, the world-wide depression had begun.

Germany, reaching the peak of its post-

war industrial activity in 1929, was the first country to be hit by the depression. Its index of industrial production declined from 100 in 1929 to 70 in 1931.³³ Even in the boom year of 1928 there had been more than a million and a half unemployed in the Reich,³⁴

26. *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932.

27. J. W. Angell, *The Recovery of Germany* (New Haven, Yale University Press, 1929), p. 179 et seq., p. 82 et seq. The six industries are coal, iron and steel, machinery, electro-technical, textile and chemical.

28. *Ibid.*, p. 360.

29. *Report of the Wiggin Committee*, cited.

30. *The Present Economic State of Germany*, cited, p. 39.

31. *Report of the Wiggin Committee*, cited. Cf. Appendix, Table II, for condensed statement of Germany's balance of international payments 1924-30, 1931.

32. *Report of the Wiggin Committee*, cited.

33. Cf. *ibid.*, Annex IX; *Vierteljahrsheft*, cited, Part A, p. 32, December 1, 1931, gives the following indices of industrial production: (1928=100) 1925—81, 1926—78, 1927—98, 1928—100, 1929—100, 1930—86, 1931—70.

34. Figure supplied by the Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung. The figure is for workers seeking jobs.

partly because of the increase in population already referred to³⁵ and partly due to the rationalization of industry which threw many people out of work. By 1929 there were almost two million unemployed, and in the years following the situation grew increasingly worse until, at the end of 1931, the six million mark had been passed. Notwithstanding the reduction of benefits in 1931, the cost of supporting huge numbers of unemployed put a great strain on the Reich budget and on the budgets of the Federal States and Municipalities.

The expenditure of large amounts for relief of the unemployed increased the budget difficulties of the Reich, and coincided with a falling-off in revenue resulting from the depression. "The course of the German budget during the last two years has shown how the progressive deterioration in the economic life of Germany has led in due course to a falling off in revenue which has in time become catastrophic."³⁶

While these difficulties since 1930 have been largely the result of the depression, the German public authorities had been accumulating a large budgetary deficit for some time previously. The rapid development of German economic activity since the stabilization of the currency was accompanied by an increase in government expenditure which, during the years 1925-1930, not only absorbed the growing taxable capacity of the Reich but resulted in a large increase in the public debt. Expenditure rose during this period by RM 3,700 million, largely due after 1927 to increases in officials' salaries, which had been very low, and to increased expenditure on unemployment.³⁷ The unsatisfactory financial relations between the Reich and its component States and Communes likewise added to the difficulties.³⁸ Finally, politics were in no small measure responsible for the fact that before the middle of 1930 no adequate measures

had been taken to remedy the growing deficit which had accumulated since 1926.³⁹

BUDGETARY DEFICIT AND PUBLIC DEBT INCREASE

Between 1926 and 1931, the accumulated deficit of the Reich, States, Hansa cities, Communes and Communal Associations together totaled RM 4,475 million. It is interesting to note that this amount was about equal to half of the total reparation drafts on the Reich budget, which amounted to RM 8,987 million for the five fiscal years under consideration.⁴⁰ The accumulated deficit of the Reich budget alone for this period was RM 2,715 million.

As public expenditure increased, with a consequent rise in the budgetary deficit, the debt of the German public authorities also grew. The inflation had wiped out 92½ per cent of this debt, so that in 1924 it amounted to only RM 6 billion.⁴¹ This caused, however, the impoverishment of large numbers of the German middle class. Between 1924 and 1931 a new debt was contracted of approximately RM 18 billion, including the obligations of the Reich, the Federal States and Hansa cities, the Communes and Communal Associations.⁴² The proceeds of more than one-third of the new debt were used for public undertakings, while about one-sixth of it consisted of the Dawes and Young reparation loans, and of war claims and damages.⁴³

EFFORTS MADE TO BALANCE THE BUDGET

Beginning in July 1930, the German government endeavored to balance its budget by measures which became progressively more drastic. Emergency decrees, issued on July 16 and 26, 1930, imposed new taxes and additional economies.⁴⁴ As a result of steadily

39. Cf. Mildred S. Wertheimer, "The Significance of the German Elections," *Foreign Policy Association Information Service*, Vol. VI, No. 13, September 3, 1930.

40. The figures are based on a compilation made by *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932. Cf. Appendix, Table IV.

41. Cf. Angell, *The Recovery of Germany*, cited, p. 313. The value of the old debt represents the figure at which it had been revalorized.

42. *Statistisches Jahrbuch, 1931*, p. 485; *Report of the Young Plan Advisory Committee*, cited, Annex IV.

43. This public debt does not, of course, include the reparation annuities. Without the reparation obligation the German public debt is about \$40 per capita as compared with \$135 per capita for the United States, \$280 for France and \$750 for Great Britain. Cf. Statement of Sir Walter Layton, *The Times* (London), January 14, 1932.

44. Cf. Wertheimer, "The Significance of the German Elections," cited, for details.

35. Cf. p. 463.

36. *Report of the Young Plan Advisory Committee*, cited.

37. *Ibid.* Salary increases accounted for RM 1,500 million; increased expenditure for unemployment for RM 1,000 million; increased external war burdens for RM 500 million; miscellaneous for RM 700 million.

38. This is due to the fact that the Reich collects most of the taxes, and transfers a large portion of the receipts to the States, which expend the money.

rising unemployment, however, the increased revenues were insufficient, and on December 1, 1930 another emergency decree was promulgated, which provided for higher taxes and more drastic economies.⁴⁵ In spite of these measures, the 1930-1931 fiscal year closed with a deficit for the Reich of RM 1.2 billion.⁴⁶ The tax returns, as a result of the depression, were RM 1,240 million below the estimates,⁴⁷ while supplementary expenditure had increased, primarily because of rising unemployment. To meet this situation, the Brüning government promulgated a draconian emergency decree on June 5, 1931, in a further effort to balance the budget. Salaries of officials were cut once more, war pensions were reduced, and taxes were increased.⁴⁸

Thus, by the summer of 1931, the effects of the depression on Germany had become particularly acute. Industrial production had fallen off almost one-third since 1929; unemployment had increased so that almost a third of the German workers were idle; and the national income had been reduced until it had reached almost the low point of 1925, after the inflation.⁴⁹ As a result of all these factors, tax receipts fell, while public expenditure rose. Taxes had been raised until, in 1930, they consumed about 28 per cent of the national income.⁵⁰

VULNERABLE POSITION OF THE REICHSBANK

These economic conditions naturally reacted on the position of the central bank, the

Reichsbank, and therefore on the German currency, which had been placed legally on the gold standard with the coming into force of the Young Plan.⁵¹ The Reichsbank's reserves of gold and foreign exchange had, however, at times been heavily drawn upon, particularly during the spring of 1929, due primarily to uncertainty over the outcome of the Paris reparation negotiations as well as to the great speculative activity on the New York stock market which drew funds from all over the world.⁵² As a result, on May 7, 1929, the Reichsbank's coverage stood at 41 per cent, the lowest level since the stabilization of the currency and only one point above the legal minimum. After that, the ratio rose gradually as the reserves were replenished, and at the end of April 1930 it stood at 62 per cent, while at the beginning of June 1930 it had reached the high mark of 72.2 per cent. During 1930 the Reichsbank was forced to provide increasing amounts of gold and foreign exchange, especially after the September Reichstag elections. As a result of these elections,⁵³ there was considerable exportation of German capital, and the Reichsbank consequently raised its discount rate from 4 to 5 per cent on October 9, 1930. The lack of confidence proved stronger, however, than the attraction of the high German interest rates, and it is estimated that during the period between September 7 and October 23 the Reichsbank lost RM 596 million in gold and foreign exchange.⁵⁴ Withdrawals continued irregularly during the first five months of 1931, but the Reichsbank was still in a strong position at the end of May 1931, its note coverage standing at 60 per cent.⁵⁵ In spite of this high coverage percentage, the large amount of foreign short-term money invested in Germany made the position of the Reichsbank, and therefore of the German currency, very vulnerable. With-

45. Wages and salaries of civil servants were reduced 6 per cent; salaries of Ministers were cut 20 per cent; the beer tax levied by the Communes was doubled; duties on tobacco of all kinds were greatly increased; the income tax in the higher brackets was again increased (by 5 per cent); budget expenditure was limited for the next three years to RM 10.6 billions; reduction of salaries of civil servants of the States and Communes was provided. (Cf. *Reichsgesetzblatt*, No. 47, 1930, December 2, 1930.)

46. *Vierteljahrsheft*, cited, Part A, September 1, 1931, p. 56.

47. Cf. Third Annex to *Wochenbericht* of the Institut für Konjunkturforschung, June 17, 1931.

48. *Reichsgesetzblatt*, June 6, 1931, No. 22, 1931, p. 279 et seq.; cf. also *Der deutsche Volkswirt*, June 12, 1931, p. 1243. By this decree, extra expenditures of RM 574 million were to be covered by the reductions noted above. A further deficit of RM 785 million in the unemployment expenditures was to be met by still more salary cuts and by a so-called crisis tax. The accumulated deficit of the States and Communes, plus the falling-off in local tax receipts and extra expenditures of local relief agencies, was to be at least partially covered by further local salary cuts, abolition of wage tax refunds and the institution of a turnover tax.

49. *Vierteljahrsheft*, cited, Part A, December 1, 1931, p. 32. National income 1925—RM 59.9 billion

1926—	62.6
1927—	70.7
1928—	75.4
1929—	76.1
1930—	68.7
1931—	50.6

According to unofficial estimates, more than 90 per cent of the German workers had annual incomes of less than \$600 before 1930. Cf. *Die Tat* (Jena) September 1930, p. 436.

50. *Vierteljahrsheft*, cited, Part A, December 1, 1931, p. 43.

51. During the entire period after the Dawes Plan went into effect, the currency had satisfied the practical requirements of the gold standard. Cf. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 245 et seq., for a survey of legal provisions concerning the Reichsbank's gold coverage.

52. *Ibid.*, p. 209 et seq.

53. Cf. p. 464.

54. *Vierteljahrsheft*, cited, Vol. 3, Part A, December 1, 1930, p. 47 et seq.

55. *Ibid.*, February 28, 1931, p. 41 et seq.; Vol. I, Part A, June 5, 1931, p. 43 et seq.; *Der deutsche Volkswirt*, June 12, 1931.

drawals of foreign credits from the Reich react in the last analysis on the Reichsbank since the other banks turn to it for assist-

ance. Because of the short-term credits, the entire German economy was therefore in a precarious position.

THE CREDIT CRISIS OF 1931

The effect of the world depression on Germany was reflected in the political sphere by the great gains made by the extremist parties, the National Socialists and the Communists. The fact, however, that the Brüning government remained in power and endeavored to set the German house in order, despite increasing difficulties, tended to restore public confidence. However, the announcement on March 21, 1931 of an Austro-German project for a customs union dealt a severe shock to public confidence, from which it has not yet recovered.⁵⁸

The collapse on May 11 of the *Creditanstalt*—the most important bank in Austria—alarmed Germany's foreign creditors, who hastened to take their money out of the Reich. By May 23 these withdrawals of gold began to be seriously felt. The reichsmark and quotations of German securities on foreign stock exchanges fell sharply. Early in June the Brüning government issued an emergency decree,⁵⁹ accompanied by a manifesto to the German people stating that Germany had made every possible sacrifice to meet its obligations. Although designed primarily for home consumption, the manifesto caused further alarm among Germany's creditors, was viewed abroad as at least a partial admission of bankruptcy, and brought about additional gold withdrawals.

Two days before the publication of the June 5 emergency decree and manifesto, Chancellor Brüning and Foreign Minister Curtius left for the Chequers week-end with Ramsay MacDonald arranged sometime previously. The conversations, originally planned to deal with disarmament, provided an opportunity to call attention to the growing seriousness of the situation in the Reich and Central Europe.

On June 10, shortly after the return of the German Ministers to Berlin, the most important wool-spinning concern in Germany⁶⁰ declared itself insolvent. The fact that this failure was largely due to mismanagement and speculation caused further uneasiness at home and abroad, for it was known that large German banks were involved. By June 17 the Reichsbank's gold losses had exceeded one billion reichsmarks, and on June 19 the bank acted to restrict individual credits in Germany as of June 21.⁶¹

THE HOOVER MORATORIUM

Meanwhile, outside of Germany, both the governments and the public were becoming increasingly concerned about the German situation. This was particularly true of the United States because of the large amount of American capital, totaling \$2,369,750,000 both long and short-term, invested in the Reich. Many feared the repercussions of a German crash and moratorium upon American banks.⁶² As a result, on Sunday, June 21, President Hoover proposed the "postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest—not including obligations of governments held by private parties." The purpose of this action was "to give the forthcoming year to the economic recovery of the world and to help free the recuperative forces already in motion in the United States from retarding influences abroad."⁶³

President Hoover's announcement had immediate effect. Tuesday, June 23, was the first day in weeks on which no gold was with-

58. *Die Norddeutsche Wollkämmerei und Kammgarospinnerei* of Bremen.

59. As a matter of fact, these measures did not come fully into force because of the announcement on June 20 of the Hoover Plan.

60. Cf. *Hearings before the Committee on Ways and Means*, House of Representatives, 72nd Congress, First Session, on H. J. Res. 123, Part I, December 15 and 16, 1931 (Washington, Government Printing Office, 1931), Statement of Undersecretary Mills. Cf. also *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932. Cf. Appendix, Tables I, V.

61. Text of President Hoover's statement, June 20, 1931, in *Hearings before the Committee on Ways and Means*, on H. J. Res. 123, cited.

56. Cf. V. M. Dean, "European Efforts for Economic Collaboration," *Foreign Policy Reports*, Vol. VII, No. 12, August 19, 1931.

57. Cf. p. 463. This account of the German crisis is based on the following chronologies of the events: *Frankfurter Zeitung*, August 23, 1931; *The Economist* (London), July 18, 25, August 1, 1931; *Bulletin of International News* (London, published by the Royal Institute of International Affairs), May 21, June 4, 18, July 2, 16, 30, August 13, 27, 1931; H. E. Priester, *Das Gchcinnis des 13 Juli* (Berlin, Stilke, 1932).

drawn from the Reichsbank, and values on the New York stock market rose considerably during the first week after the announcement. On June 25 the German Reichsbank was given a rediscount credit, to run to July 16, of \$100,000,000 by the Bank of England, the Bank of France, the Federal Reserve Bank of New York, and the Bank for International Settlements.

The international response to the President's proposal was immediate, and as dramatic as the proposal itself. The interested governments, with the exception of France, replying almost at once, accepted the proposed moratorium. The French, on the other hand, were surprised and shocked at the suddenness of President Hoover's announcement. They feared it might mean the end of the Young Plan and were correspondingly disturbed.

Negotiations between the United States and France continued for seventeen days and an agreement was finally reached on July 6, under the terms of which France consented to the one-year moratorium on the understanding that the suspended payments should be repaid with interest in ten annual installments beginning July 1, 1933. Germany, however, was to continue to pay the unconditional annuities into the Bank for International Settlements, which could reloan the money to Germany in the form of guaranteed bonds of the German railways.⁶²

Confidence Continues to Recede

Thus, while the Hoover moratorium was accepted, the French thesis of continuity of payment, and therefore of integrity of the Young Plan, remained technically inviolate. The initial psychological effect of President Hoover's plan, however, had been lost in the course of the prolonged Franco-American negotiations. The moratorium acted as a boomerang; not only did confidence recede once more, but the very fact that a moratorium had been suggested seemed to prove that Germany was bankrupt. Withdrawals of foreign credits continued, and within Germany itself considerable hoarding took place.⁶³ By July 8, two days after the Franco-

American understanding was reached in Paris, the atmosphere in Berlin was one of panic.

In an attempt to raise a large international loan,⁶⁴ the president of the Reichsbank, Dr. Luther, made a flying trip to London and Paris. In Paris it was plainly apparent that no credit would be forthcoming unless the Reich gave political guarantees which were said to entail renunciation of the proposed Austro-German customs union and of the new "pocket battleship." A guarantee of the *status quo* on the Eastern frontiers was also alleged to have been mentioned. No German government could offer such political guarantees and hope to remain in office; Dr. Luther flew back to Berlin.

Meanwhile, as a result of continued gold withdrawals, the Reichsbank had tightened credit restrictions and had attempted to check the domestic flight from the mark. London acceptance banks held a private meeting on July 10 to discuss means of stopping withdrawals of credit from Germany. The stock exchanges throughout the world had by this time lost the gains made as a result of Mr. Hoover's initial announcement. By July 12 the German Cabinet was in continuous session. It had become apparent that no immediate foreign help would be forthcoming, and that Germany must fall back on its own resources; "self-help" had become the watchword.

THE CRISIS IN GERMANY

Monday, July 13, is known as "Black Monday" in the annals of the crisis. The heads of the Central Banks, including Dr. Luther, met at Basle, and at midnight issued a *communiqué* stating that "the German government having approached various governments with a view to obtaining financial assistance on their various markets, the Bank for International Settlements is prepared to collaborate . . . and to strengthen the assistance [to Germany] by all the means at the disposal of the Central Banks." No figures for such a new credit were given; the meaning of the *communiqué* was that the central bankers, finding the situation too much in-

62. Publications of the Department of State, *Press Releases*, July 4, July 11, 1931.

63. *Vierteljahrshft*, cited, Part A, September 1, 1931, p. 37.

64. On June 30 the Reichsbank's note coverage, without the new rediscount credit, had shrunk to 29.8 per cent. (Figures supplied by courtesy of the Reichsbank.)

volved with politics, had handed the problem back to the governments concerned.⁶⁵ The Bank for International Settlements, however, was authorized to extend for three months the rediscount credit of \$100,000,000 to the Reichsbank which was due to expire July 16.

Meanwhile, in Berlin the *Darmstädter und Nationalbank*, the second largest private bank in Germany, had closed its doors on July 13. The Cabinet issued a manifesto enjoining the German people not to lose its nerve, and an emergency decree by which the government was empowered to guarantee the deposits of the bank. There were moderate runs on other banks and in many cases it was necessary to limit withdrawals to from 5 to 20 per cent of demands. To meet the situation, the government closed by decrees all banks and savings institutions for two days (July 14-15), and German stock exchanges for an indefinite period. Further emergency decrees were issued restricting bank payments on July 16-18 to amounts essential for wages, unemployment insurance benefits, municipal relief and taxes. All foreign exchange transactions were put under the control of the Reichsbank.

International Attempts To Assist Germany

While these events were taking place in Germany, discussion of possible international financial measures to aid the Reich were in progress. On July 16 the British government invited representatives of the United States, Belgium, France, Germany, Italy and Japan to an international conference in London on July 20 to consider the emergency in Central Europe. President Hoover immediately accepted and announced that the United States would be represented by Secretaries Stimson and Mellon.⁶⁶ On July 17 it was officially announced in Berlin that Chancellor Brüning and Foreign Minister Curtius would visit Paris on their way to London in order to confer with the French Ministers.⁶⁷ At the conclusion of these con-

versations, it was stated in Paris on July 19 that the French government would participate in the London Conference, but that it had been agreed that this conference should be strictly limited to an examination of Germany's financial and economic situation.⁶⁸ There was to be no discussion of an international loan to Germany or of political issues.

The London Conference met on July 20 and, acting under its restricted mandate, made the following recommendations: a three months' renewal of the \$100,000,000 credit which the Reichsbank had received on June 25; the appointment of a committee by the Bank for International Settlements to study the immediate credit needs of Germany and the possibility of converting a portion of the short-term credits into long-term; concerted measures in different countries to stop withdrawal of credits from the Reich.⁶⁹ These recommendations were to "form a basis for more permanent action to follow," and the official *communiqué* added that "lack of confidence in Germany is not justified by the economic and budgetary situation."

Reich Takes Measures Toward "Self-Help"

In Germany the withdrawal of foreign credits to the amount of RM 2.9 billion during the first seven months of 1931⁷⁰ had shaken to its foundations the credit structure of the Reich, which increased the stagnation of business, with the inevitable result that still more people were thrown out of work. By September 1931 one-third of the industrial life of Germany had stopped.⁷¹ Furthermore, the July banking crisis forced the Reich government to make large and unanticipated expenditures to bolster up the credit structure of the country. A deficiency guarantee of the *Darmstädter und Nationalbank*, support of the Dresdner Bank, which had also been concerned in the *Nordwolle* affair,⁷² and participation in an Acceptance

68. *The Economist* (London), July 25, 1931.

69. Cf. p. 467 for "Standstill Agreement." Text of the official *communiqué* issued at the close of the London Conference in *Hearings before the Committee on Ways and Means*, on H. J. Res. 123, cited.

70. *Report of the Young Plan Advisory Committee*, cited. A gross total of between RM 28.5 and 30 billions remained.

71. *Ibid.* Taking 1928 as 100, the index of industrial production had fallen to 86 in 1930 and to 66 by September 1931.

72. Cf. p. 464.

65. *The Economist* (London), July 13, 1931, p. 104.

66. Publications of the State Department, *Press Releases*, July 18, 1931. This was the first time since the Paris Peace Conference that the United States had been officially represented at a conference dealing with reparation and European political questions.

67. *The Times* (London), July 17, 1931.

and Guarantee Bank, which was founded in August in order to furnish increased facilities in the discounting of commercial paper, were undertaken with this end in view at the expense of the Reich treasury. According to the July 31 balance sheet of the *Darmstädter und Nationalbank*, the Reich's guarantee comprised some RM 2.1 billion and the treasury gave actual financial aid to various other institutions up to September 1 amounting to about RM 570 million.⁷³

The States, as well as the Reich, were forced to make extra expenditures because of the July crisis, and the fact that savings banks and other communal credit institutions were no longer in a position to grant the Municipalities further credits forced the latter to exercise even stricter economies, which reacted unfavorably on the labor market by further limiting building activities and other enterprises.

The position of the Reichsbank was especially serious. On July 15, the day before the banks were reopened for partial payment,⁷⁴ the 40 per cent legal minimum gold coverage of the Reichsbank was lowered by the General Board of the bank to 30 per cent. The Reichsbank reserve stood at RM 2,576 million at the beginning of June 1931 (58.3 per cent), but by July 31 it had fallen to RM 1,610 million (36.1 per cent)—a loss of RM 966 million. Furthermore, of this RM 1,610 million coverage, the bank owed RM 630 million at short-term in respect of the rediscount credits granted to it by the Bank for International Settlements and the Central Banks, and to the *Golddiskontbank* by an American consortium.⁷⁵ Without these credits, the percentage of note coverage was only 22 per cent.

NEED FOR GOVERNMENTAL ACTION STRESSED BY WIGGIN COMMITTEE

Meanwhile, the Bank for International Settlements, acting under the recommenda-

tions of the London Conference,⁷⁶ had appointed a committee, known as the Wiggin-Layton Committee, which met in Basle from August 8 to 18. The committee declared that there was pressing need for action on the part of the governments to assist Germany, and stated that there could be no general economic recovery until the situation in the Reich had improved. The bankers, however, were forced to place the responsibility for action on the governments, and declared frankly that "until the relations between Germany and the other European powers are firmly established on a basis of sympathetic cooperation and mutual confidence, and an important source of internal political difficulty for Germany thereby removed, there can be no assurance of continued and peaceful economic progress." The committee warned that "the time is short" and recommended:

1. Rapprochement between France and Germany.
2. Reduction of reparation and inter-Allied debts.
3. Reduction of tariff barriers.
4. Prompt action on the part of the responsible governments, which alone could take the "necessary measures for bringing about such conditions as will allow financial operations to bring to Germany, and thereby to the world, sorely needed assistance."

The Wiggin-Layton report gave a certain amount of psychological comfort to Germany: it not only pointed out that the latter's condition was an acute phase of the world depression, to which it had been particularly vulnerable because of its short-term credits, but also noted that the Brüning government had "given proof of its determination in difficult circumstances to put Germany's finances on a sound basis." More tangible relief was forthcoming, however, from the Standstill Agreement which was drawn up by a committee of private bankers meeting simultaneously with the Wiggin-Layton group. This bankers' committee also acted under mandate from the London Conference, and was composed of German bankers and representatives of the Reich's foreign bank creditors.

Provisional "Standstill Agreement"

The provisional Standstill Agreement, as finally drafted, was a very technical docu-

73. *Vierteljahrsheft*, cited, Vol. 2, Part A, September 1, 1931, p. 56 et seq. This sum includes: RM 80 million in the newly founded Acceptance and Guarantee Bank; RM 300 million for the preferred stock of the Dresdner Bank; a credit of RM 43 million for five years for RM 35 million worth of *Darmstädter und Nationalbank* shares which may eventually be taken over by various industrial concerns, an action which made possible the reopening of the bank; RM 5.6 million for reconstruction of the J. F. Schroeder Bank in Bremen; RM 125 million in treasury notes for the *Rheinische Landesbank*; RM 15 million in treasury notes to the Dresdner Bank for use in bolstering up the *Deutsche Orientbank*.

74. Cf. p. 466.

75. *Report of the Young Plan Advisory Committee*, cited. The American consortium was headed by the International Acceptance Bank of New York.

76. Cf. p. 466.

ment which provided that Germany's foreign creditors would not withdraw their short-term money from the Reich for a six-months period ending February 29, 1932.⁷⁷ The Standstill Agreement did not apply to the short-term debts of the States and Municipalities, amounting to RM 355 million according to the estimate of the Wiggin Committee, the latter having recommended that arrangements for renewal be negotiated between the debtors and creditors directly.⁷⁸

Thus the outside aid which Germany had received up to September 1931 consisted of the Hoover moratorium, the \$100,000,000 rediscount credit to the Reichsbank, and the provisional Standstill Agreement. The relief to the Reich budget resulting from the suspension of reparation payments, theoretically, should have helped to balance it. The added expenditures resulting from the July crisis, however, and the sharp fall in tax receipts caused a new deficit. Moreover, the decrease in imports, due to the strained foreign exchange situation, had considerably reduced customs receipts.

GERMANY RESORTS TO MORE DRASTIC "SELF-HELP" MEASURES

In an endeavor to balance the budget, the Brüning government issued an emergency decree on October 7 which imposed still further economies on all political undertakings, scaled down unemployment benefits, again reduced salaries and pensions, and contained provisions designed to relieve somewhat the serious financial straits of the Municipalities.⁷⁹

The October decree, however, did not ease the budgetary situation sufficiently, and on December 8 the government issued a fourth decree, "for the security of economy and finance," which probably contains the most radical measures ever promulgated by a so-called capitalist government. Wages were

reduced by 10 and, in some cases, 15 per cent to the level of January 10, 1927; interest rates above 6 per cent were reduced;⁸⁰ rents were lowered; and commodity prices cut by 10 per cent. A price commissioner was appointed to supervise the fulfillment of these provisions.

The December decree, without which there would have been a fresh deficit of RM 400 to 450 million, was expected to balance the budget. The deficit was met by further reductions of official salaries, an increase in the turnover tax, which has been raised from 0.85 per cent to 2 per cent, and by more economies.

As a consequence of these decrees, salaries of German civil servants have now been reduced by over 20 per cent—to a level lower than that obtaining in 1927 when these salaries, which hitherto had been very low, were raised. Wages and living costs were lowered by fiat, economies were ruthlessly put into effect, and the burden of taxation "became so high that there is no margin for a further increase."⁸¹

Besides bolstering up the series of banks already referred to, the government has been forced to take emergency measures in the field of credit policy. A system of general control of banks was established under a board headed by a commissioner of banks. New regulations were issued regarding savings banks; the latter are not allowed to grant new credits to Municipalities, and have been limited as to the extent to which they may finance them in future.

Foreign Exchange Transactions Centralized under Reichsbank

Most important of all, the government has centralized in the Reichsbank all transactions in foreign exchange, to limit the purposes for which exchange may be acquired. All purchases of foreign exchange require prior authorization and all persons who acquire any, whether by export or otherwise, are compelled to offer their holdings to the

77. There was considerable controversy over the question of the German mark balances abroad and it was finally agreed that 25 per cent of the total (approximately RM 739 million by the middle of July 1931 according to the Wiggin Committee—the estimate is probably too low) could be withdrawn at once, and 15 per cent realized monthly thereafter. In case such withdrawals should appear to endanger the position of the Reichsbank, provision was made to postpone them. Cf. *Text of Agreement*, Basle, August 18, 1931; cf. also "Stillhalten," by Dr. Edgar Salin, in *Wirtschaftsdienst* (Hamburg), September 11, 1931; and *The Economist* (London), August 22, 1931, p. 340.

78. *Reichsgesetzblatt*, No. 63, September 30, 1931, p. 509. The Standstill Agreement went into effect on September 17, retroactive to September 1.

79. Cf. *Reichsgesetzblatt*, No. 67, October 7, 1931; *The Economist* (London), October 17, 1931; *Der deutsche Volkswirt*, October 9, 1931.

80. Debts at 8 per cent are to be charged 6 per cent; interest from 8 to 12 per cent is to be reduced by a quarter; and on interest in excess of 12 per cent there will be a reduction of a quarter in the part between 6 and 12 per cent, and a half in the part exceeding 12 per cent. Cf. *The Economist* (London), December 19, 1931; *Der deutsche Volkswirt*, December 11, 1931.

81. *Report of the Young Plan Advisory Committee*, cited. The average German income tax rate is 10 per cent, the exemption limit for single persons being only \$285 a year. (Cf. article by Dr. Robert Arzet in *New York Herald Tribune*, February 14, 1932.)

Reichsbank. Proceeds of sales of securities on behalf of foreigners may no longer be sent abroad, and there are stringent provisions to limit the flight of capital. Furthermore, non-fulfillment of the above measures is punishable by heavy fines or imprisonment.⁸²

In spite of restrictions on foreign exchange transactions, the position of the Reichsbank has become steadily weaker. Following withdrawals under the Standstill Agreement, the currency coverage ratio shrank still further,⁸³ until by December 15 it had fallen to RM 1,161 million, of which RM 630 million represented foreign rediscount credits. The percentage cover for notes on December 15, if these rediscount credits are included, was 25.6 per cent; without them, it was only 11.7 per cent. On January 31, 1932 the coverage was 10.5 per cent without the rediscount credits: the legal minimum is 40 per cent. The figures for notes in circulation show a tendency toward hoarding. Finally, the heavy withdrawals during the crisis by both Germans and foreign creditors appears to have forced the Reichsbank to substitute its own credit for the deposits and other credits removed from banks. This has resulted in a large increase in the domestic bill holding of the Reichsbank.⁸⁴ In all, about RM 1.2 billion of short-term credits has been repaid since July, so that during the entire year of 1931 Germany actually paid back more than RM 4 billion, or about \$1,000,000,000, to its creditors. Since the autumn of 1930 it has repaid more than RM 5 billion.

The Second "Standstill Agreement"

The position of the Reichsbank may be assisted somewhat by the negotiation of a second Standstill Agreement, to replace the provisional agreement of September 17⁸⁵ which expired on February 29, 1932. After

six weeks' discussion, a foreign bankers' committee and a German committee of bankers initialed a new agreement on January 23 in Berlin, which came into force on the expiration of the earlier arrangement. It remains valid until February 28, 1933 unless: (1) Germany declares a moratorium; (2) the rediscount credit granted to Germany by the Central Banks and the Bank for International Settlements⁸⁶ is not renewed; (3) future international decisions of a financial or economic character create a situation which endangers the fulfillment of the agreement; (4) the terms of the agreement are not complied with.

The new agreement applies to the short-term debt of German banks and industries, and has no direct concern with the German government debt. The foreign creditors' committee concurs in the views of the Young Plan Advisory Committee and underlines the fact that Germany stands in a difficult position with respect, first, to the assembling of funds within the Reich, and second, to the transfer of marks into foreign currencies. The money lent, according to the bankers, was "taken in good faith and in good faith the German debtors mean to repay," as has been demonstrated by the fact that approximately RM 5 billion have already been repaid since the autumn of 1930.

Future payments, therefore, are viewed as depending on the transfer ability of the Reichsbank which, in turn, "must be largely dependent on the German export situation." The new agreement, in contrast to the former arrangement, provides no fixed schedule of repayments at definite dates, but leaves the future determination of what can be repaid to an advisory committee of representatives of the creditors which will consult periodically with the German authorities. In order to protect the creditors, a second committee of the German authorities is to be set up which will exercise general control of payments with respect to all German external indebtedness both within and outside the Standstill Agreement.⁸⁷

86. Cf. p. 465.

87. Provision is made for the conversion of the creditors' option of cash advances to German banks into ten-year notes with interest at 6 per cent. Furthermore, subject to certain restrictions, unsecured cash advances may be converted into "blocked" investments in Germany. Text of *The German Credit Agreement of 1932*; cf. also *Report of the Foreign Creditors' Standstill Committee* (Berlin, January 23, 1932); and *The Economist* (London), January 30, 1932.

82. This summary is from the *Report of the Young Plan Advisory Committee*, cited. The Reich has issued a long series of emergency decrees regulating the control of foreign exchange dealings, flight of capital and tax evasions, as follows:

Reichsgesetzblatt, 1931, I, July 15, p. 365; July 16, p. 369; July 18, p. 374; July 21, p. 387; July 25, p. 396; July 27, p. 403; July 28, p. 412; August 1, p. 421; August 12, p. 437; August 20, p. 453; August 29, p. 461; September 4, p. 477; September 24, p. 523; October 2, p. 533; November 10, p. 673; and November 17, p. 679, 682.

83. Cf. p. 468. It is alleged that part of the Reichsbank's loss of foreign exchange was due to transfer by foreigners of the proceeds of sales of German securities, which was not prohibited until November 1931.

84. *Report of the Young Plan Advisory Committee*, cited.

85. Cf. p. 467.

Abnormal Factors Increase Favorable Trade Balance

By the end of 1931, as a result of the crisis, production had fallen to the level of the years 1897-1898. To appreciate the full significance of this shrinkage it must be recalled that thirty years ago Germany had a larger area than at present, and almost 10 million fewer inhabitants.⁸⁸

These developments are plainly reflected in the German trade balance for 1931. Partly as a result of decreased purchasing power, partly as a result of severe restrictions in foreign exchange transactions, which reduced the imports of goods into Germany to the lowest possible minimum, and partly as a result of abnormal developments abroad, German foreign trade for 1931, especially the second half of the year, showed a very high surplus of exports over imports. The fact that during the six years, 1924-1930, the Reich had an unfavorable balance of commodity trade, amounting to RM 6.3 billion, in spite of a favorable balance for 1930 of RM 1.6 billion, has already been noted.⁸⁹ In 1931 the surplus of exports over imports totaled more than RM 2.9 bil-

lion,⁹⁰ but compared to 1930 imports fell off by more than one-third, and exports by more than a fifth.⁹¹ The drop in imports was especially sharp during the second half of 1931. At the same time exports rose, largely because of forced sales and other abnormal factors. It seems doubtful, therefore, that economic conditions will permit the favorable balance to be continued at the present high level. The figures for January 1932 bear this out; compared with the 1931 monthly average, exports declined in volume by more than 30 per cent, while imports fell off by more than 25 per cent.⁹²

Besides the influence of purely economic factors on the maintenance of a high German export balance, the increasing trade restrictions imposed by other leading countries of the world constitute a serious obstacle to its continuation. Tariffs, foreign exchange control measures abroad, import restrictions and contingents, plus the fact that depreciation of sterling and other currencies will without doubt increase the competition which German goods must meet abroad, are all factors which must make it increasingly difficult for the Reich to maintain a large export surplus.⁹³

REPARATION AND INTER-ALLIED DEBTS

Following the report of the Wiggin Committee, which had urged prompt action on the responsible governments, and the conclusion of the first Standstill Agreement, negotiations were undertaken with a view to easing the international political situation. On September 27 and 28 Premier Laval and Foreign Minister Briand of France paid an official visit to Berlin, the first time since 1878 that a French Premier had entered the German capital. As a result of this visit, a committee was constituted to work out the details of Franco-German economic cooperation which, it was hoped, would lead to eventual political *rapprochement*. In October M. Laval went to Washington and conferred with President Hoover. The official *communiqué* issued on October 25, after the termination of these conversations, stated that "in so far as inter-governmental obliga-

tions are concerned we recognize that prior to the expiration of the Hoover year of postponement, some agreement regarding them may be necessary covering the period of business depression, as to the terms and conditions of which the two governments make all reservations. The initiative in this matter should be taken at an early date by the European powers principally concerned within the framework of the agreements existing prior to July 1, 1931."⁹⁴

LAVAL AND HOOVER DISCUSS INTER-GOVERNMENTAL OBLIGATIONS

This *communiqué* was interpreted in some quarters to mean that the United States

88. Cf. *Wirtschaftliche Mitteilungen* (Berlin, Deutsche Bank und Disconto Gesellschaft, January 30, 1932).

89. Cf. p. 461.

90. *Frankfurter Zeitung*, January 20, 1932.

91. Compensating for price changes, the value of imports in 1931 fell 16 per cent and exports 9 per cent. (*Der deutsche Volkswirt*, January 22, 1932, p. 538.) Germany's share in the volume of world trade between 1929 and 1931 decreased by a third; American and British trade fell off in that period almost one-half. (*Wirtschaftliche Mitteilungen*, cited.)

92. *Report of the Young Plan Advisory Committee*, cited; For January 1932 figures, cf. *Frankfurter Zeitung*, January 16, 1932; for figures of commodity trade, cf. Appendix, Table III.

93. Cf. *Report of Wiggin Committee*, cited, and *Report of Young Plan Advisory Committee*, cited.

94. Full text in *Press Releases*, October 31, 1931.

would give France its moral support in continuing the Young Plan,⁹⁶ and made it plain that after the European powers had agreed to reduce German reparation the United States would readjust the inter-Allied debts "covering the period of business depression." The initiative was definitely left to the European powers concerned, and M. Laval, in turn, promised that the machinery provided in the Young Plan for the protection of Germany would be set in motion "at an early date."

Following M. Laval's return to France, diplomatic conversations took place between Paris and Berlin, from which it was clear that Germany was determined to secure a definitive settlement of the reparation problem, if possible, and not merely a temporary adjustment during the depression. The Reich wished to include in the terms of reference of the Young Plan Advisory Committee, which was to be convened, an investigation of its capacity to pay both reparation and private debts. To this the French would not agree, insisting on the letter of the Young Plan.⁹⁷ Finally, as a result of these negotiations and in order to bring matters to a head, the German government on November 19 asked the Bank for International Settlements for the convocation of the Advisory Committee provided in the Young Plan in order to postpone the conditional annuities. The German memorandum pointed out that all measures taken for the relief of the Reich had been provisional, that in the intervening months the German situation had become more and more critical, and that the application for postponement of the annuities and for the convocation of the Advisory Committee was being made to "pave the way for comprehensive and joint measures on the part of the governments." The memorandum stressed the need for the "utmost dispatch."⁹⁸

REPORT OF THE YOUNG PLAN ADVISORY COMMITTEE

The Special Advisory Committee was promptly convened by the Bank for Interna-

tional Settlements, and met in Basle from December 8 to 23. A comprehensive report on the situation was published, which declared that Germany would not be able to transfer the conditional part of the reparation annuity due in July 1932. The committee then went on to state that in the present crisis certain considerations seemed to them of great importance:

1) That "transfers from one country to another [in payment of international obligations] on a scale so large as to upset the balance of payments can only accentuate the present chaos."

2) That "the adjustment of all inter-governmental debts (reparations and other war debts) to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace."

3) That "although the German Government is energetically defending the stability of its currency, steps are necessary to secure that these measures shall have a permanent effect."

Finally, the committee appealed to the governments "on whom the responsibility for action rests to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike." Responsibility had once more been placed on the governments, as it had been in August by the Wigginton-Layton Committee.

OFFICIAL POSITIONS ON REPARATION AND WAR DEBTS:

United States

Meanwhile, President Hoover, in a special message to Congress on December 10, asked that legislation sanctioning the one-year moratorium on inter-governmental debts be enacted if possible by December 15, when payments to the United States from a number of countries would fall due. The President also recommended the re-establishment of the World War Debt Funding Commission, with authority to examine existing debts in the light of a reduced capacity to pay resulting from the world depression.⁹⁹ After an acrimonious debate, the House of Representatives on December 18 approved the moratorium by a vote of 318 to 100, subject to an express declaration that it is

96. Cf. *Le Temps*, October 26, 27, and November 3, 1931.

97. Cf. *Agreements concluded at The Hague Conference, January 1930* (London, H. M. Stationery Office, 1930), Cmd. 3484, Annex III, Part V, p. 36.

98. For text of the memorandum, cf. *Report of the Young Plan Advisory Committee*, Appendix I.

99. *Congressional Record*, December 10, 1931, p. 283 et seq.

"against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner canceled or reduced; nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable considerations will be given at any time to a change in the policy hereby declared."¹⁰⁰ The Senate adopted the resolution on December 22 by a vote of 69 to 12.¹

In effect, this resolution apparently prevented President Hoover from carrying out his part of the agreement with M. Laval. The growing isolationist sentiment in the United States was further reflected in a memorandum communicated to the French Ambassador in Washington by Secretary Stimson after the Congressional action on the moratorium.² According to unofficial accounts, published three weeks after the French government received the memorandum, the communication stated that the United States recognized no connection between war debts and reparation, that the European powers must take the initiative on reparation, that a new debts moratorium could not obtain approval in Congress, and that the United States government would look with displeasure on the formation of a united front by the debtor nations. The memorandum pointed out that the existing debt agreements with the United States, having been concluded separately, can be revised eventually only by separate negotiations with each of the debtor states.

Germany

Thus, despite the Hoover-Laval conversations, the leading creditors of Germany had reason to believe that there was little prospect that the United States would scale down the inter-Allied debts even if German reparation were reduced. Nevertheless, the British government, early in the new year, issued invitations to a reparation conference which, after much discussion, it was decided to hold in Lausanne on January 25, 1932. Suddenly, on January 9, Chancellor Brüning announced that Germany could not continue

to pay reparation after the expiration of the Hoover year. "The Basle Report," Dr. Brüning declared, "shows not only Germany's matter-of-fact inability to pay [reparation] but, beyond that, the causal connection between German reparation and the present world situation. . . . It is as clear as day that Germany's position makes it impossible for it to continue political payment. It is fully as plain that every attempt to maintain intact a system of such political payments must lead to disaster not only for Germany but for the whole world."

In a sense this declaration merely recorded an existing fact, recognized even by France as far as the immediate future of reparation is concerned. On the other hand, it made absolutely clear that in Germany's opinion no compromise solution of the problem is acceptable. This position was further emphasized on January 20, when Dr. Brüning informed the British Ambassador in Berlin that the German government could not accept an extension of the Hoover moratorium as it affects reparation, but would insist upon a definitive solution of the problem of political debts before the end of the present year.

The Brüning declaration of January 9, while not difficult to understand in the light of German domestic politics,³ greatly aggravated the international situation. It stiffened the French attitude, and at the meeting of the heads of the Central Banks in Basle on January 11 the Bank of France refused to renew its share in the \$100,000,000 rediscount credit to the Reichsbank. On January 28 the renewal was granted for a period of one month, to expire March 4, 1932.⁴

In view of the uncompromising attitude not only of the United States but of Germany, it was finally decided that there was no hope of the Lausanne Conference arriving at a settlement, and on January 20 the conference was postponed.⁵

3. The German political situation will be discussed in a forthcoming issue of the *Foreign Policy Reports*.

4. *Le Temps*, January 12, 29, 1932; *The Economist* (London), January 16, 1932; *Frankfurter Zeitung*, January 29, 1932. The renewal was made conditional upon (1) renewal by the Bank for International Settlements, the Federal Reserve Bank of New York and the Bank of England of their shares; and (2) the Reichsbank's guarantee that it will under no circumstances prohibit the export of gold in payment of this credit.

5. Cf. *New York Times*, January 21, 1932. Cf. also p. 473.

100. *Ibid.*, December 18, 1931, p. 807 *et seq*; cf. also, *ibid.*, December 14, 15, 16, and 17, 1931.

1. *Ibid.*, December 22, 1931, p. 1124.

2. *New York Times*, January 21, 1932. The actual text of the memorandum has not been published, although an unofficial summary was made public in Paris on January 20.

France

The conflicting viewpoints of the various governments have been officially set forth since Chancellor Brüning's declaration of a German *non-possumus*.⁶ The French position has been consistently that "France cannot abandon the rights it holds in its treaties, rights which represent only a part of the damages it has suffered," as Premier Laval declared in the Chamber on January 22.⁷ On this basis, France has taken the stand that Germany should be given a moratorium only to tide it over its present difficulties. A cancellation of the Reich's reparation obligations, the French say, cannot be envisaged, if only because there is no certainty at present of a corresponding reduction in the French debt to the United States. Furthermore, the "most elementary principles of international morality demand payment of the unconditional reparation annuities which are destined to pay for the reconstruction of the devastated areas." In this connection, M. Léon Blum, the French Socialist leader, recently suggested in the Chamber that since the French and German estimates of the sums which the Reich had already paid differed so widely, an impartial committee of investigation should be constituted, perhaps under the League of Nations, to establish the truth of the matter.⁸ M. Blum declared that the French Socialists believe that German reparation should be limited to an amount equivalent to the material destruction of the devastated areas, reparation which in no sense is "tribute" levied on one people by another. Finally, the French feel that "there is an inevitable danger to world economic equilibrium inherent in freeing Germany from its public debt."⁹

Great Britain

The British, on the other hand, although they too fear the consequences of future competition from a Germany with a relatively small public debt, consider that cancellation of reparation and inter-Allied debts would be the most effective means of settling the world's financial problems. Speaking in

the House of Commons on February 2, Chancellor of the Exchequer Neville Chamberlain said that "the policy of His Majesty's Government is that a comprehensive settlement of reparations must be reached as soon as possible. We believe, as successive governments in this country have believed in the past, that this aim can best be realized by means of a general cancellation of reparations and war debts."¹⁰

Italy

The attitude of the Italian government is similar to the official British view. Premier Mussolini's personal newspaper, *Il Popolo d'Italia* of Milan, published on January 12 a plea to "wipe the slate clean of the tragic book-keeping of the war." Stressing the necessity of taking measures to lift the world out of the depression, this article asserted that the immediate need is to relieve Germany of reparation payments, which must necessarily lead to a revision of the entire question of inter-Allied debts.¹¹

LAUSANNE CONFERENCE
SUMMONED FOR JUNE 1932

Despite this serious conflict of views in Europe, the British Foreign Office issued a *communiqué* on February 13 announcing that the postponed Lausanne Conference would be held in June,¹² this decision having been taken by agreement of the Belgian, French, German, Italian, Japanese and British governments. The *communiqué* states that the object of the conference "will be to agree to a lasting (*durable*)¹³ settlement

10. *New York Times*, February 3, 1932. It is contended that this would be particularly true in regard to the German railways, which, under the Dawes and Young settlements, were able to carry annual reparation charges of RM 660 million. These annuities in a sense replaced the capital charges on the railways which had been wiped out by the inflation. If reparation is canceled, the German railways will apparently have to pay only 2 per cent on their invested capital, as compared with 23 per cent paid by French and British railways, and 17 per cent by American. Furthermore, the German railways have an invested capital of only 12 billion francs, while the French railways' invested capital amounts to 60 billion, the British to 100 billion and the American to 675 billion francs. Thus cancellation of reparation would place the German railways, and therefore German industry, in a privileged position. (Cf. *Le Temps*, January 27, 1932.) The Young Plan Advisory Committee reported that while the depression had unbalanced the budget of the German railways, it was to be expected that "once Germany and the world recovered their balance and returned to something like the economic conditions which we are accustomed to regard as normal, the German railways (fundamentally a sound undertaking) will be able in future years if managed on a commercial basis to yield a net operating surplus comparable with that earned by other big railway systems."

11. *New York Times*, January 13, 1932.

12. *Ibid.*, February 14, 1932.

13. There is some doubt as to the meaning of the word "lasting," the French text apparently reading "durable," and not being interpreted in Paris as signifying "permanent" or "lasting." Cf. *New York Times*, February 14, 1932.

6. Cf. p. 472.

7. Cf. *Le Temps*, January 24, 1932.

8. Cf. *Le Temps*, January 21, 1932.

9. *Ibid.*, January 27, 1932; cf. also, p. 462, footnote 43.

of the questions raised in the report of the Basle experts and on measures necessary to solve the other economic and financial difficulties which are responsible for and may prolong the present world crisis. This decision has been reached by the above govern-

ments in the hope that it may ease the international situation."

In August 1931 the experts warned that "the time is short"; it remains to be seen whether ten months later the responsible governments will heed this warning.

APPENDIX

TABLE I

Inter-Allied Payments due to the United States during the Fiscal Year 1932*

Country	Principal	Interest	Total
Austria	\$ 287,556	\$.....	\$ 287,556
Belgium	4,200,000	3,750,000	7,950,000
Czechoslovakia	3,000,000	.....	3,000,000
Estonia	108,012	492,360	600,372
Finland	55,000	257,295	312,295
France	11,363,500	38,636,500	50,000,000
Great Britain	28,000,000	131,520,000	159,520,000
Greece	660,000	449,080	1,109,080
Hungary	12,270	57,072	69,342
Italy	12,200,000	2,506,125	14,705,125
Jugoslavia	250,000	.....	250,000
Latvia	44,664	205,989	250,653
Lithuania	38,615	185,930	224,545
Poland	1,325,000	6,161,835	7,486,835
Rumania	800,000	.....	800,000
Total	\$62,344,617	\$184,222,186	\$246,566,803
Germany, army costs	6,000,000	.....	6,000,000
Total	68,344,617	\$184,222,186	\$252,566,803

*Figures from *Hearings before the Committee on Ways and Means*, House of Representatives, Seventy-Second Congress, First Session, on H. J. Res. 123, Part I, December 15 and 16, 1931 (Washington, Government Printing Office, 1931), p. 4.

TABLE II

Germany's Balance of International Payments¹

(in billions of Reichsmarks)

	Total 1924 to 30	1931 Jan. 1 to June 30	1931 July 1 to Dec. 31 Preliminary Estimate
Exports*	77.5	4.8	4.5
Imports*	83.8	3.8	2.5
Balance of commodity trade*	- 6.3	+1.0	+2.0
Gold and <i>Devisen</i> movements at banks of issue	- 2.1	+1.4	.....
Reparation	-10.3	-0.9	Nil
Servicest (Shipping, Tourist, Insurance, etc).	+ 3.0	+0.1	+0.1
Interest	- 2.5	-0.4	-0.4
	-18.2	+1.2	.....
Capital Movements			
Long-term**	+ 9.1	unknown	.....
Short-term**	+ 6.2	"	.....
Other capital movements, etc.	+ 2.9	"	.....
	+18.2	-1.2	.....

1. Report of the Wiggan Committee, cited.

*Includes movements of precious metals (other than those at the banks of issue) and the bulk of deliveries in kind—the latter amounting to RM 4 billion for the seven years.

†Includes reparation deliveries inside Germany, and deliveries in kind so far as these are not included in the figures of merchandise trade.

**So far as known.

TABLE III
Balance of Germany's Commodity Trade*
(in millions of Reichsmarks)

	<i>Imports</i>	<i>Exports</i>	<i>Surplus of</i>	
			<i>Imports</i>	<i>Exports</i>
Monthly Average, 1925-29	1,051	959	92	.....
Monthly Average, 1930	866	1,003	....	137
Monthly Average, Jan-June, 1931	634	794	....	160
1931—July	562	827	....	265
August	454	803	....	349
September	448	835	....	387
October	483	879	....	396
November	482	749	....	267
December	488	738	....	250
1932—January	440	542	....	102

*Figures from *Report of the Young Plan Advisory Committee*, cited, except those for December 1931 and January 1932 which are from the *Frankfurter Zeitung*, January 20, and February 16, 1932.

TABLE IV
Receipts and Expenditures of German Public Administration*
 1926-1931
(in millions of Reichsmarks)

	1926-27	1927-28	1928-29	1929-30	1930-31
Net Expenditure†					
General Administration	1,227	1,384	1,474	1,462	1,428
Police and Justice	943	1,088	1,183	1,152	1,149
Defense	672	738	809	738	739
Education, Housing and Social Services	5,710	5,845	6,452	6,753	7,403
Transport and other public					
undertakings	1,138	1,263	1,413	1,346	1,452
Internal war charges	1,867	1,885	2,304	2,052	1,969
External war charges	1,309	1,779	2,178	1,909	1,812
Other expenses	764	994	1,155	1,195	1,134
Total	13,630	14,976	16,968	16,607	17,086
Revenue					
Income tax, corporation profits tax					
and turnover tax	3,519	4,154	4,725	4,603	4,210
Customs	940	1,251	1,105	1,095	1,083
Other taxes	6,456	7,260	7,509	7,628	7,835
Special contributions towards					
reparation**	760	880	958	953	988
Profit-yielding assets, etc.	1,121	1,362	1,461	1,408	1,527
Total	12,796	14,907	15,758	15,687	15,643
Surplus or Deficit	—834	—69	—1,210	—919	—1,443

*Including the Reich, the States, Communes and Hanseatic cities. *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932.

†After allowing for administrative revenue, revenue from loans, etc.

**Including the special charge on industrial undertakings, which was, however, transferred to general tax revenue after the termination of the Dawes Plan.

TABLE V
Foreign Investments in Germany*
 End of July 1931
(in millions of Reichsmarks)

	<i>Other Short-</i>		<i>Long-</i>	<i>Total</i>	<i>Percentage</i>	
	<i>Acceptance</i>	<i>Term</i>	<i>Term</i>		<i>of Grand</i>	<i>Contingent</i>
	<i>Credits</i>	<i>Loans</i>	<i>Loans</i>		<i>Total</i>	<i>Liabilities†</i>
United States	1,405	1,738	6,336	9,479	41.0	421
Great Britain	886	1,167	1,541	3,595	15.2	413
France	160	496	440	1,096	4.8	97
Italy .....	.....	102	68	170	0.7	9
Holland	263	1,806	1,118	3,187	14.0	304
Switzerland	236	1,642	1,014	2,892	12.6	336
Bank for Interna-						
tional Settlements .....	.....	758.	.....	758	3.3	.....
Other Countries	28	1,281	591	1,900	8.3	479
Grand Total	2,978	8,991	11,108	23,077	100.0	2,059

*Figures from *The Economist* (London), Supplement, *Reparations and War Debts*, January 23, 1932, p. 11. This table is based on the revised estimates resulting from the census of foreign capital in Germany undertaken by the Reichsbank and submitted to the Young Plan Advisory Committee.

†Contingent liabilities apparently include debts of German subsidiaries to foreign parent corporations and of German parent corporations to foreign subsidiaries, actually largely invested funds and not short-term debt; also guarantees and participations in German firms, etc., cf. *Report of the Foreign Creditors' Standstill Committee*, Berlin, January 23, 1932.

